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A survey of the records and policies of small businesses in Terre Haute, Indiana

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A SURVEY OF THE RECORDS AND POLICIES OF SMALL BUSINESSES IN TERRE HAUTE, INDIANA

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CHAPTER I

GENERAL INTRODUCTION

Small business is no phenomenon. From the earliest of colonial days, when a forward-looking passenger might bring along a milch cow and sell milk to other passengers in the long tiresome voyage from England to the Massachusetts Bay Colony at two pence per quart, small business enterprises have comprised a representative portion of our economy and a highly essential sector of our distributive system.

Little or no political attention was paid to small business until October 1943, when the Special Committee of the Senate to Study and Survey Problems of Small Business Enterprises was created with James E. Murray of Montana as Chairman. Since that date there has been a steadily increasing political and economic interest in the well-being of smaller concerns. This interest has more recently grown to include the returning service man who may have plans to open or to acquire a business of his own, and the war worker who may have saved sufficient funds to open his own business, or who may return to the shop which his wife and children have operated in his absence.

Importance of record keeping for small business. Small businessmen have always been faced with the need of keeping their records down to a bare minimum. Unlike the owners of large chain store organizations, department stores, and supermarkets, they have often been unable to afford the services of specialized record-keeping personnel. Many have been their own bookkeepers and accountants, keeping their records "on the cuff." As a result, they have frequently failed to obtain a full and continuous picture of margins, turnover rates in specific lines, operation costs, and other basic trends in their own business. This factor has contributed to the many difficulties involved in competing with big businessmen.

The war has created a need for much more detailed records than businessmen have usually kept. As an aid in formulating administrative policies, the war agencies needed an unprecedented amount of current statistics on prices, margins, costs, inventory movements, etc. Eager to cooperate in the war effort, many small businessmen have often found compliance with the new record and report requirements an almost insurmountable task.

Why keep records? "Why keep complicated records? I can see what's going on in my business--I'm here every day. Anyway I'm so busy running my store I don't have time for keeping records. Besides, I don't know anything about it."

This is the view often expressed by small-store businessmen when the subject of record keeping is discussed. There are several things wrong with this view. In the first place, neither a large number of records nor complicated ones are necessary. A set of useful records can be simple, easy to keep, and will require little of the businessman's time. Secondly, if the average small-store businessman is so well informed on the condition of his business through his intimate daily associations with it, why is it that so many of the unsuccessful and bankrupt businessmen are found to have had poor records or no records at all?[1]

Record keeping, in one form or another, is necessary in all occupations. It is important for everyone to keep records of receipts and expenditures for his own personal

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[1] Record Keeping for a Small Business. Department of Commerce, State of New York. p. 1, Small Business Series, Number 6.

information and use. It is even more important that a business, no matter how small or large, keep records. In order to meet the requirements of modern tax laws and to render the reports required by the government, a business firm must keep more detailed records than ever before. Records are essential for planning future operations, since such planning must be based on past operations, the history of which is found in the "books" or records of the business. It may safely be said that no modern business can hope to succeed without careful and detailed records of its transactions.

Reason for choice of problem. Since all businesses are required to prepare governmental reports such as income tax returns, sales tax returns, and social security tax reports, these governmental reports must be based upon adequate business records. The efficient planning and management of any business also depends upon a satisfactory bookkeeping system.

Statement of the problem. The major problems to be investigated in this survey are: Does the small businessman keep records? How adequate are his records? What system of records is used?

<u>Procedure</u>. To answer the above and similar questions, the writer prepared a check list of 32 items. One hundred small businesses in Terre Haute, Indiana, with a capital investment of $50,000 or less each, were interviewed by the writer as to the way they keep records and some of their policies of doing business.

No attempt was made to keep the interviews uniform.

The current classified section of the city telephone directory was used to secure the names and addresses of the different types of businesses. A recent issue of Dun and Bradstreet Credit Ratings was consulted as to the capital investments. Forty-six different types of businesses were included in the 100 businesses interviewed.

Below is a table showing the number and type of businesses interviewed.

TABLE I

NUMBER AND TYPE OF BUSINESSES INTERVIEWED

Type	Number
Grocery stores	14
Liquor stores and taverns	8
Restaurants	6
Drug stores	5
Bakery and doughnut shops	4
Clothing stores	4
China and glassware shops	3

TABLE I (CONTINUED)

NUMBER AND TYPE OF BUSINESSES INTERVIEWED

Type	Number
Cleaners	3
Filling stations	3
Fruit and vegetable markets	3
Auto mechanics	2
Barber and beauty shops	2
Camera and art shops	2
Candy and ice-cream parlors	2
Electrical appliance shops	2
Florists	2
Furniture stores	2
Jewelry stores	2
Tire and battery service	2
Wholesale food products	2
Wholesale poultry	2
Ammunition, welding-repair shop	1
Carded merchandise	1
Coal dealer	1
Dairy	1
Farmer	1
Fish market	1
Frozen foods	1
Harness shop	1
Hotel	1
Junk dealer	1
Locksmith service	1
Millinery shop	1
Monument dealer	1
Motor-spring service	1
Music store	1
Pop corn stand	1
Printing shop	1
Rental library	1
Rental property	1
Rug company	1
Sewer contractor	1
Tree surgery	1
Variety store	1
Warehouse & delivery company	1
Wholesale beer distributor	1

CHAPTER II

PRESENTATION OF DATA

<u>Business failures result from insufficient records.</u> Why do many stores go out of business? Why are the chances of survival of a new store slim? Although many factors are probably responsible, the findings of one study reveal: "An appraisal of the adequacy of records of New Jersey and Boston bankrupts disclosed that almost one-third kept no records, and that less than one-fourth kept adequate records. A similar condition existed among Chicago bankrupts. Only 27 per cent of the 494 retail merchants studied had adequate accounting systems."[1] It is also pointed out in this same study that "about 30 per cent of the retail firms discontinue business within their first year. An additional 14 per cent dissolve before reaching their second anniversary."[2] This evidence indicates that the highest first-year mortality is in groceries, followed by drug and hardware stores. The report summarizes the chances of survival of grocery stores as follows: "About 7 of each 10 new grocery stores opening today will survive into their second year. Only 4 of the 10 may expect to celebrate their fourth birthday."[3]

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[1] <u>Problems of Small Business</u>, <u>Monograph No. 17</u>. Temporary National Economic Committee, pp. 85-86, 76th Congress Senate Committee Printing, 1941. Government Printing Office.

[2] <u>Ibid</u>., p. 7.

[3] Ibid., p. 3.

A study of the causes of failure in drug stores in St. Louis, made by the Department of Commerce, also shows that inadequate records were an important cause. Of the thirty "failed" druggists who were studied, only two had ever attempted to prepare statements of profit and loss and balance sheets from the records maintained in their business. Three kept no records whatever; the others had notebooks in which they recorded only purchases and sales. Most of the "failed" druggists, although for many months on the road to ruin, were not aware of their ultimate failure until it arrived.[1]

Recent statistics from the National Cash Register Company reveal:

Everyday in the United States-------

1290 new businesses start operation and 1140 cease operation

200 businesses are forced to take bankruptcies

87 per cent are capitalized $5,000 or less

And is there any connection between failure and an adequate set of records?

52 per cent had no accounting records

28 per cent had inadequate or poor records

20 per cent had good accounting records[2]

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1 Causes of Failure Among Retail Druggists. Domestic Commerce Series. No. 59, U.S. Department of Commerce, 1932, Government Printing Office.

2 Statistics compiled by the Pure Oil Co., 1945 for the National Cash Register Company. (Unpublished)

It is clear that most of the stores that failed, referred to in the above studies, either had kept no records at all or had inadequate records. If it is true that an adequate record keeping system would help in any way to reduce the probability of failure and increase the chances of survival, that alone would be a sufficient answer to the question, "Why keep records?"

The national mortality rate of small business as shown by Dun & Bradstreet statistics is five years, five months. The average life of the 100 businesses interviewed in the writer's study is sixteen years, nine months. This study does not necessarily prove that business failures are the result of insufficient records, owing to the fact that the 100 businesses have been and probably will continue to be in business many more years in spite of their lack of adequate records.

It is not only true that good records help a businessman to operate a profitable store more successfully but that a businessman who has the ability to run a profitable store is usually one who recognizes the benefits of good records.

The purpose of adequate record keeping is to provide complete information about the amount of each asset, the amount of each liability, and the amount of the proprietorship.

To achieve this purpose, every transaction is recorded in two parts, the debit element and the credit element--the debit always equaling the credit; thus double-entry bookkeeping is necessary.

Any incomplete system of bookkeeping that does not record both the debit and the credit parts of each transaction is known as single-entry bookkeeping.

It was found in this study that:

71 businesses keep their records by the single-entry method and 29 keep their records by the double-entry method.

The single-entry plan that was used in these businesses varied from a narrative of transactions recorded in a single journal, called a daybook, to a relatively complete set of journals and a ledger providing for all significant items.

The average number of employees including the proprietor is 3 1/4. Members of the family frequently were the only ones employed.

Those businesses employing part-time bookkeepers also have them serve as salesclerks.

Sixty of the businessmen either keep their records themselves or a member of the family keeps them, but they have the returns prepared by an outsider. Only five proprietors keep their own records and prepare their own returns. Below is a table showing the number who keep their own records, prepare their own reports, employ bookkeepers, etc.

TABLE II

TYPES AND FREQUENCY OF METHODS USED IN

KEEPING RECORDS

Method	Number
Proprietors or member of family keep records, but have returns prepared by an outsider	60
Have an outside agency to keep the records	14
Employ part-time bookkeepers, but have returns prepared by an outsider	10
Employ full-time bookkeeper and prepare own returns	7
Member of family or proprietor keeps own records and prepares own returns	5
Employ full-time bookkeeper, but have returns prepared by an outsider	4
Total	100

The owner is engaged in business activity to earn a profit. He wants to know from time to time the amount of profit earned or loss incurred. The period for which the profit or loss is determined is known as a fiscal period. A fiscal period should not be more than one year. It may be for three months, six months, or one month. The federal income tax law provides that the owner of a business be taxed on the amount of his income for each year.

If the nature of the business is such that those interested wish to know the profit or the loss for a period less than one year, the fiscal period may be for the periods mentioned above. The length of the fiscal periods in this study is shown in Table III.

TABLE III

LENGTH AND FREQUENCY OF FISCAL PERIODS

Length of Fiscal Period	Number of Businesses
One year	42
Three months	29
One month	21
Six months	5
Weekly	3
Total	100

It is necessary at the close of the fiscal period to ascertain the amount of the unsold merchandise on hand by taking stock. The process of ascertaining the present value of the merchandise on hand is referred to as <u>taking inventory</u>.

The determination of the quantities on hand by actual count, measurement, or weight and specific valuation of each unit is referred to as a physical inventory. A record showing the quantities and values of the units of merchandise which presumably are on hand is called a book inventory or a perpetual inventory. An estimated inventory is an inventory which is merely estimated. Below is a table showing the three different types of inventory and the frequency of each.

TABLE IV

TYPES OF INVENTORY AND FREQUENCY

Type	No.	Frequency				
		Daily	1 mo.	3 mos.	6 mos.	yearly
Physical	54	2	10	3	5	34
Estimated	41	0	3	1	2	35
Perpetual	5					
Totals	100	2	13	4	7	69

One merchant said that he could take a "five-minute" inventory. This is merely another name for the keeping of a perpetual inventory.

As was previously stated, 29 businesses keep their records by the double-entry method; the 29, plus 1 who keeps records by the single-entry method, prepare trial balances at various times during the year.

TABLE V

FREQUENCY OF TAKING A TRIAL BALANCE

Frequency	Number
Monthly	22
Yearly	3
Daily	2
Weekly	2
Indefinite intervals	1
Total	30

Seventy proprietors do not take a trial balance because it is impossible to take a trial balance of a single-entry ledger and test the accuracy of the postings. A trial balance is prepared to test the equality of debits and credits in the ledger and to prove the accuracy of posting. The proprietor who kept a single-entry set of records and said that he prepared trial balances could not be convinced that he didn't take a trial balance but merely checked to see if his cash balanced every night.

Financial statements are intended to give the owner of a business a picture of his financial and operating condition for the period under consideration. Information as to a business's financial and operating condition better equips the owner with data required for future success in planning and management.

Of the 100 businesses interviewed, 49 prepare profit-and-loss statements and 39 prepare balance sheets.

Before preparing the balance sheet and the profit-and-loss statement, it is customary to ascertain the net profit or the net loss and to prove that the amount is correct. Only 25 prepare work sheets before making the statements. The work sheet is not a finished statement and therefore should not be presented as such to creditors.

If one could stop all activity in a business for an instant and could take a snapshot of the financial condition, he would observe the following: the value of cash on hand and in the bank, the value of merchandise on hand, the amounts owed to the business by customers, and the other assets owned. Another view of this picture would reveal the amounts owed to others. The difference then between the total assets and total liabilities would represent the owner's "net worth," or his equity and the assets of the business as of a given date. A balance sheet summarizes this information for the interested parties.

Below is a table showing the frequency and the number of businesses that prepare balance sheets.

TABLE VI

FREQUENCY AND NUMBER OF BUSINESSES THAT PREPARE BALANCE SHEETS

Frequency	Number
Yearly	16
Monthly	14
Daily	4
Semi-annually	4
Weekly	1
Total	39

What was the volume of sales? What was the cost of goods sold last year? What was the gross profit on sales? What was the total operating expenses including such non-cash expenses as depreciation? Did the store earn a net profit during the last year? The profit-and-loss statement provides the answer to these questions.

The profit-and-loss statement is a summary, or a moving picture, of the business operations of the store during a given period.

Below is a table showing the frequency and the number of businesses that prepare profit-and-loss statements.

TABLE VII

FREQUENCY AND NUMBER OF BUSINESSES

THAT PREPARE PROFIT AND LOSS STATEMENTS

Frequency	Number
Monthly	21
Yearly	21
Quarterly	4
Daily	1
Semi-annually	1
Weekly	1
Total	49

It is customary to close the books and to test the equality of debits and credits in the ledger after the closing entries are posted and the accounts are ruled. This equality proves that all closing and balancing work has been completed accurately and that the ledger is ready for the next fiscal period. The test of this equality is accomplished through the preparation of a trial balance known as the <u>post-closing trial balance</u>.

In answer to the question, "Do you close your books at the end of the fiscal period?" 76 answered "yes" and 24 answered "no."

Of the 76 who answered "yes," only 20 close their books according to the methods recommended and used by accountants. The remainder merely close off that portion of their books and start over again for the next fiscal period on a new page.

"How often do you take a post-closing trial balance?" Below are the replies.

TABLE VIII

FREQUENCY AND NUMBER OF BUSINESSES THAT TAKE A POST-CLOSING TRIAL BALANCE

Frequency	Number
Never	80
Yearly	12
Monthly	5
Semi-annually	2
Indefinite intervals	1
Total	100

TABLE IX

REASONS AND FREQUENCY OF THE USES

PROPRIETORS MAKE OF THE BUSINESS STATEMENTS

Reason	Frequency
Comparative purposes	38
Inspection and tax reports	14
To facilitate the keeping of correct records	5
Credit purposes	4
Progress and idea of financial condition	4
Future reference	2

In response to the question, "What is your purpose for keeping records?", the writer tried not to suggest any reasons or purposes for keeping records.

TABLE X

PURPOSES FOR KEEPING RECORDS

Purpose	Frequency
Tax purposes	88
Good business policy- picture of business comparative purposes personal knowledge expansion, etc.	48
To see whether making a profit or taking a loss	35
Social security- F.O.A.B.	4
O.P.A.	3
Daily check--reports	2
Insurance	1
Credit purposes	1

It was interesting to note some of the exact quotations of the businessmen as to the importance and purpose for keeping records. Some of them are as follows:

> "Every small merchant ought to keep a record of his income and expense so he can tell practically how he stands. If he doesn't, how can he tell whether he is making any money?"
>
> "We need this information for ourselves and in order to have proper information for government reports."
>
> "To determine the progress of the business, catch any unnecessary losses and to correct mistakes and unwise decisions or actions."
>
> "Without records, you can't do business."
>
> "We keep records to determine our inventory, profit or loss, various percentages, mark ups, taxes, turnover, anticipated purchases, expenses."
>
> "I keep records to keep myself posted."
>
> "I have someone to keep my records so that I will have a complete business story at a glance, enough to meet my needs."

It has been customary in the past for a merchant to offer cash or sales discounts when cash is received in payment of an invoice or a bill of goods. Of the 100 businesses interviewed, only 15 extend cash discounts to certain customers. None make it a regular practice.

The bank provides each depositor with a monthly statement showing the amount he has on deposit. The checks paid by the bank during the month, known as canceled checks, are returned to the depositor with the monthly statement. If the balance in the bank, shown by the monthly statement, agrees with the balance on the check stub, the depositor may accept the amount of the bank statement as correct. If the balance on the bank statement is not the same as the balance on the check stub, the depositor should verify his records. This verification is known as reconciling the bank account.

TABLE XI

FREQUENCY OF RECONCILING THE BANK STATEMENT

Interval	Frequency
Monthly	54
Never	37
Every 90 days	4
Semi-annually	3
Every 60 days	2
Total	100

The owner of cash is interested in knowing that the amount of cash agrees with the balance shown by the cash record. For this reason the one who records the cash transactions will ascertain periodically that the cash equals the amount shown by the cash record. Only nine businesses out of 100 do not prove cash. Seventy-nine prove cash daily.

TABLE XII

FREQUENCY AND NUMBER WHO

PROVE CASH

Interval	Frequency
Daily	79
Never	9
Weekly	8
Monthly	4
Total	100

Only 19 businesses make daily deposits of cash either in a safe at the place of business or in the bank. The majority make deposits in the bank "according to the volume of business." Sixteen businesses not making daily deposits have a regular time for making deposits.

"Do you make daily deposits of cash?" Nineteen answered "yes" and 81 answered "no."

TABLE XIII

FREQUENCY OF MAKING DEPOSITS

OF CASH

Interval	Frequency
According to volume of business	65
Weekly	11
Three times a week	2
Two times a week	1
Monthly	1
Twice monthly	1
Total	81

The majority of the businessmen interviewed in this study keep a daily record of sales, cash, purchases, and expenses. They prepare these data in a final daily summary report and at the end of the year, use this data for the preparation of tax reports.

There is one record that almost every businessman interviewed is interested in keeping. No matter how few records they keep, businessmen like to know the answer to the question, "What is my volume of business?"

The benefits derived from sales figures and data are obtained through making comparisons. The businessman compares the month's, the week's, or the day's business with the sales of the corresponding month, week, or day of some previous period. In this way he will learn the trend of his business operations. The comparative daily, weekly, and monthly sales record permits the businessman constantly to watch his volume of sales.

Fifty-four businesses interviewed are on a cash basis and have no accounts receivable. The other 46 have very few charge customers.

Below is a table showing the method in which the 46 proprietors handle their accounts receivable.

TABLE XIV

METHODS OF HANDLING ACCOUNTS RECEIVABLE

Method	Frequency
Ledger	28
Book for each customer	16
Spindle file	6
Box file	2
Card system	1
Coupon books	1
Memory	1

Accounts receivable are the amounts the customers owe the business. Even the smallest businesses interviewed sometimes run into the problem of selling goods or services "on the cuff." An attempt is frequently made to discourage this by conspicuous signs like "In God we trust; all others pay cash." It is almost impossible to avoid some extension of credit, especially if, as is usually the case in a small business, a personal relation develops between the businessman and the customer. It is very important to watch these credit sales and to see that accounts receivable outstanding do not become too large.

Accurate records of all accounts receivable and losses incurred on bad debts provide the basis for deciding whether it pays to extend credit. A great many factors have to be taken into account before a decision can be made because credit sales may be stimulating cash sales. But the cost of extending credit must be given considerable weight in order that a check on credit practices may be made.

Only 12 of the 46 businesses extending credit are able to estimate what per cent of accounts receivable are uncollectible in a year.

"If there is one bit of advice that I have to give you, it is this--don't extend credit." This advice was given by a druggist of twenty years' experience to a younger man just opening a store in a near-by city. And yet a large proportion of this older man's business had been done and was still being done on a credit basis. What was back of this man's thinking? Since he thinks so poorly of credit, why does he continue to extend it?

He gave this advice because he had lost money on his credit business and apparently could not place it on a satisfactory basis. As a result of granting credit he had lost large sums of money due to bad debts, spent hours trying to collect. He had often found it difficult or impossible to pay his own bills.

During the past few years, people have been able to pay cash for their purchases and haven't had to ask for credit.

Even though the businessman must keep records, his credit troubles will not be cured by merely keeping records. Record keeping is not a remedy for bad practices, but record keeping can provide the information that will warn the businessman in time if his credit business is getting out of control.

Record keeping cannot run a credit business, but a credit business cannot be run without record keeping.

Somebody has said that he who has never made mistakes has never made anything. Since we are all subject to making mistakes, a good business practice is never to take anything for granted.

Seventy-five per cent of the businesses interviewed checked the extensions on purchases and sales invoices.

It is a common practice among small merchants to pay large amounts to creditors by check. The majority use the "paid-out" key of the cash register.

TABLE XV

METHODS OF THE BUSINESSMEN FOR HANDLING PAID-OUTS

Method	Frequency
Cash with memo	75
Check	61
Voucher	2
Petty cash	2

Ninety per cent of the businessmen segregate their expenses because of the income-tax requirements. Certain items are deductible as "business expenses" and the others are deductible as "other expense." To facilitate the making of state and federal reports they record all expenses separately. Only 10 per cent charge their expenses into one or two large captions.

It was interesting to note where the proprietors secured their bookkeeping knowledge. The total number of responses will exceed 100 because some attribute their knowledge to more than one source. Experience is still considered the best teacher, but what a price some had to pay. Below is a table showing where the businessman attributes his training and knowledge of record keeping.

TABLE XVI

PLACES WHERE THE BUSINESSMAN ATTRIBUTES HIS TRAINING AND KNOWLEDGE OF RECORD KEEPING

Place	Frequency
Experience	65
Business college	19
High school	17
College	6
U.S. Army	3
C.P.A.	1

"If your business were perhaps on a larger scale and you were going to hire additional help, what business subjects would you consider most valuable for a prospective worker in your business?"

Below is a table showing the responses. The writer tried not to make any suggestions.

TABLE XVII

FREQUENCY OF BUSINESS SUBJECTS WHICH THE BUSINESSMAN CONSIDERS MOST VALUABLE FOR A PROSPECTIVE WORKER

Subject	Frequency
Bookkeeping	66
Arithmetic	35
Typing	34
General business	18
Salesmanship	18
Psychology	9
Business law	8
Three "r's" plus common sense	8
Shorthand	7
Spelling	5
Personality	5
Business English	5
Economics-finance	4
Office practice	3
Interest plus ambition	2
Auditing	1
Business administration	1
Filing	1
Purchasing training	1
Speech	1

"In your opinion, do you think that your set of records is adequate for your type of business?"

Yes	92
No	8

Some of the positive reasons that they gave were:

"Simple and I am used to it."

"Easy and simple."

"Family business and we know what is going on."

"Provides us with daily sales information."

"Accessibility to any portion of records."

"Reveals the information needed and required to pass deputies' inspection."

"We use company tested forms."

"Adequate, but too complicated."

"We get by---."

Only eight proprietors said that their records were not entirely adequate for their business. Two reasons were:

"-----too far behind times with modern bookkeeping and office methods."

"Our records are not simple and complete enough to get a quick check on business."

Five proprietors said that they would be interested in a different set of records if their businesses were larger and if they themselves were younger.

In answer to the question, "Do you think that books for small businesses should be more standardized or less standardized?", 75 want more standardization and nine prefer less standardization. Sixteen proprietors merely said that it "depends on the type of business."

Businessmen want a system that takes little time and is easy, one that gives them a true picture and keeps them informed.

CHAPTER III

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

During the past few months the writer has had the opportunity to study at firsthand the bookkeeping system (or lack of system) used by 100 small businesses in Terre Haute, Indiana. Included in the group are the following typical businesses: grocery stores, taverns, liquor stores, restaurants, auto service stations, garages, drug stores, clothing stores, bakeries, cleaners, etc.

These businesses ranged in size from no employees outside the members of the family to 28, and with a capital investment of $50,000 or less each. They are typical of the commercial establishments that might be found in any small city of the United States. Their problems are undoubtedly similar to those that confront the management of similar businesses everywhere, and their management is probably no better or no worse than corresponding establishments in other sections of the country.

Some of the findings are as follows:

1. The average life of the 100 businesses interviewed in the writer's study is 16 years, 9 months.

2. Seventy-one businesses keep their records by the single-entry method and 29 keep them by the double-entry method.

3. The average number of employees, including the proprietor is 3 1/4. Members of the family frequently were the only workers.

4. The majority keep their own records, but have the returns and tax reports prepared by an accountant.

5. Those businesses employing part-time bookkeepers also have them serve as salesclerks.

6. One year is termed as the fiscal period by 42, three months by 29, one month by 21.

7. More estimate their inventory yearly than monthly.

8. Only 30 proprietors bother to take a trial balance to prove the accuracy of posting. It is impossible for the remaining 70 to take a trial balance of a single-entry ledger. It is the opinion of the writer that the proprietor who kept books by the single-entry method didn't attempt to take a trial balance, but rather made the single-entry proof of cash.

9. Forty-nine prepare profit-and-loss statements; 39 prepare balance sheets.

10. Eighty concerns do not take a post-closing trial balance. They merely close off that portion of their books and start over again for the next fiscal period on a new page. These concerns have no proof that all closing and balancing work has been completed accurately and that the ledger is ready for the next fiscal period.

11. The majority of the businessmen keep records primarily for tax purposes rather than to aid them in the management of their business.

12. The granting of cash discounts was not a common practice among the 100 businesses. Only 15 gave them to special customers.

13. Fifty-four reconcile their bank statements monthly. Thirty-seven never pay any attention to them. The remainder reconcile them at other intervals.

14. Seventy-nine prove cash daily. Only nine either have no regular time or never prove cash.

15. It is more common for the small businessman to deposit cash according to the volume of sales rather than daily.

16. All businesses keep a record of sales and cash receipts.

17. Fifty-four businesses were on a cash basis and had no accounts receivable. The other 46 have very few charge customers.

18. Seventy-five handle their "paid-outs" through the cash register.

19. Ninety per cent segregate their expenses rather than lump them into one or two large captions because of the tax requirements.

20. Experience in record keeping is the best teacher. Only 17 businessmen attribute their knowledge of record keeping to the high school.

21. Bookkeeping, arithmetic, typing, general business, and salesmanship are the business subjects which the businessmen considered most valuable for a prospective worker in their business.

22. The majority thought that their set of records were adequate for their type of business because they have been able to "get by" and because most of them employed only members of the family. Only eight proprietors said that their set of records were not entirely adequate for their business. The reason given was that their records were not simple and complete enough to get a quick check on the business.

23. Five proprietors said that they would be interested in a different set of records if their businesses were larger and if they themselves were younger.

24. Businessmen want a system of records that requires little time to keep and is simple, yet gives them a true picture of their business. Their primary purpose to be in business is to make money, and they can't make money if all their time is spent in record keeping.

<u>Conclusions and recommendations</u>. The businesses interviewed were not strictly self-service stores as are the large chain stores and super markets, but many features of a self-service store were used in serving customers.

Each business is different in that the conditions are never quite alike and individual adaptations should be made from the universal principles. To make these adaptations, there must first be an understanding of the principles; and once these are understood, it is surprising how easy it is to cut out a system which will exactly fit. Therefore, if the headings on a form do not happen to be the headings which the particular business needs, one should study the form and discover the exact wording that will best suit the business.

It may be given as a general principle that the best system of accounting is that which will give the most accurate results with the least clerical work. Good accounting is not necessarily complex.

With this in mind, the writer recommends a model record-keeping system for small business.

Customers will make their purchases in the various departments and then proceed to the check-out counter where they pay at one place for everything they have bought. This system makes it necessary to have only one cash register in the store and enables the proprietor to keep a close check on the entire business.

A cash register which would be most useful for small businesses is one that is used to record the following types of transactions:

1. All sales whether they are cash sales or charge sales.
2. All amounts received on account from charge customers.
3. Small amounts that are paid out of the register during the course of the day.

Expenditures of more than $10 are paid by check while those of $10 or less are paid from the cash register if there is sufficient cash to make the payment. Have a cash register that prints a record of all transactions that are recorded on the register. The register should be provided with keys that are used to record complete information pertaining to each transaction.

At the beginning of each day's business there must be placed in the cash drawer a sufficient amount of change to take care of ordinary demands.

Experience has shown that $25 in change is sufficient to have in the cash drawer at the beginning of the day's business.

Each afternoon when sufficient money has been taken in, $25 in change should be removed from the cash drawer and placed in a bag so that there will be change to start the next day's business. This bag is placed in the safe overnight. At the end of each day, therefore, the cash register drawer should contain all the money received during the day less the amounts that have been paid out.

The cash register provides on a printed tape inside the register a summary of each transaction. This printed record is called a detailed audit strip. On the strip is printed the following information:

1. The transaction number.
2. The amount of the transaction.
3. The type of transaction, such as Rc, Pd, or NS.
4. The clerk's identification of a cash sale or "CH" if a charge sale.

Periodically during the day a reading of the register should be taken.

At the end of each day the cash register will have accumulated a total of charge sales, a total of sales for each department, a total of amounts received on account, a total of amounts paid out, and a group total, including all cash sales.

The following procedure at the end of each day's business is recommended:

When the store closes at the end of each day, count the money in the cash drawer, prepare a report of the day's business, and deposit the receipts in the night depository at the city national bank. This procedure eliminates the necessity of keeping overnight in the store safe the receipts for the day. There are times, however, when this cannot be done and it is necessary to deposit the receipts the following day. Insurance coverage amounting to $250 should be carried to protect the store from loss in the case of robbery at the store or when the money is transferred to the bank.

The customary procedure for balancing the receipts for the day is as follows:

1. Clear the cash register and remove the detailed audit strip for the day.
2. Audit and file the charge slips and received-on-account slips.
3. Prepare a cash register report which is a summary of the day's business.
4. Deposit the receipts in the bank.
5. Record a summary of the day's transactions in a combined cash journal.

When the owner of a small business decides that he will start a set of books to keep information about the operation of the business and to determine periodically how the business stands and how much money the business has made, he must first obtain the following information:

1. What he owns.
2. What he owes.
3. How much he is worth.

At least once each year and sometimes more frequently a businessman should take an actual count of his merchandise on hand. This information is needed for financial statements and in preparing the federal income tax return. The cost price should be used in preparing the balance sheet and the other statements of the business.

Although many retail stores use cash registers to obtain information about the money that has been handled in the business as well as sales that have been made, too many stores do not record and summarize this information in such form that it can be used in preparing business reports and tax reports.

The writer recommends a one-book system of accounts which is divided into the following sections:

Section 1- Fixed assets register

Section 2- Sales record

Section 3- Combined cash journal

Section 4- Expense analysis record

Section 5- Employees' earnings record

However strong an argument can be built up in favor of keeping full and complete records, they are at best only a tool of management. They can achieve nothing by themselves and if misused they can do much harm. They can become the master instead of the servant and bog down the operation of the business so that there is no time to make money. Good business judgment, perseverance, and a fair share of lucky breaks are primary factors in the success of a business. Although very necessary, accounting records are no substitute for judgment and common sense.

Wise business decisions are difficult to make and no hard and fast rules can be substituted for good judgment. A sixth sense known as business sense seems to be possessed by some fortunate individuals who make more right decisions than wrong and, therefore, become successful in business. But book learning and bookkeeping can help anyone.

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Survey of the Records and Policies of Small Businesses
in Terre Haute

1. Number of employees including proprietor ______________________

2. Do you keep a set of accounting records? ______________________

3. Do you employ a full time bookkeeper? __________ Number __________

4. Do you have an outside agency to keep your books? ______________

5. How long have you been in business? ______________________

6. Do you offer sales discounts? ______________________

7. What system of records do you keep? double entry ___ single entry ___
combination journal ___ multiple journal ___

8. Length of fiscal period.. 1 mo.__ 3 mos.__ 6 mos.__ 1 yr.__

9. How often do you take inventory? ________ How? Physical ____
Perpetual ____
Estimated ____

10. How often do you reconcile your bank statements? ______________

11. How often do you prove cash? ______________________

12. Do you make daily deposits of cash? ______________________

13. What business forms do you use to gather information and to provide data for permanent recording?
cashiers slip ________
analysis slip ________
final daily summary report ________
other ________

14. How do you handle your accounts receivable? book for each customer ____
on spindle ________
in ledger ________
other ________

15. Are you able to determine the accounts receivable you have outstanding at the present time? ______________________

16. What percent of accounts receivable do you estimate as uncollectible? ____

17. Do you check your extensions on purchases and sales invoices? __________

18. What is your method of handling paid-outs? by check ___ cash register with memo ___ voucher ___ other ________

19. Do you lump your expenses into one or two captions or do you segregate them? ______________________

20. Do you take a trial balance? __________ How often? __________

21. Do you prepare a Work Sheet before making statements? ____________

22. Do you prepare Balance Sheets? ____ How often? ____________

23. Do you prepare P. & L. Statements? ______ How often? ____________

24. What use do you make of the statements? ____________

25. Do you close your books at the end of the fiscal period? ____________

26. How often do you take a post-closing trial balance? ____________

27. What is your purpose for keeping records? ____________

28. Where did you secure your bookkeeping knowledge?
experience ________
high school ________
bus. college ________
college ________

29. What type of high school training do you consider most valuable for a prospective worker in your business?

30. In your opinion, do you think that your set of records is adequate for your type of business? Why?

31. Would you be interested in a different set of books?

32. Do you think that books for small businesses should be
more standardized ____________
less standardized ____________